

## Local Government Pension Scheme (LGPS)

### Salary Sacrifice - How does this affect my pension benefits?

#### What is Salary Sacrifice?

A salary sacrifice happens when an employee gives up the right to receive part of the cash pay due under his/her contract of employment. Usually the sacrifice is made in return for the employer's agreement to provide the employee with some form of non-cash benefit. Once you accept a salary sacrifice, your pay in cash is lower so you may pay less tax, national Insurance and pension contributions. Some salary sacrifice scheme's are pensionable i.e. the amount of cash you give up still counts towards the figure used to calculate your pensionable pay and therefore your pension benefits. These include both Child Care Vouchers and Green schemes e.g. provision of a cycle or cyclist safety equipment.

Some employers now also provide a Car Salary Sacrifice scheme, it is important to note that the salary sacrificed in this scheme is **not pensionable**. Therefore, members of the LGPS need to think carefully about how this will affect their pension before they sign up to such a scheme.

This fact sheet aims to provide members with the information they need if they are considering taking up a car salary sacrifice option.

Salary Sacrifice Examples	Pensionable
Child Care Nursery Place/Vouchers	YES
Green schemes - Cycle Provision	YES
Professional Subscriptions	NO
Cars	NO

#### How will the car salary sacrifice scheme affect my pension?

A member will pay less pension contributions on a salary sacrifice scheme as the contribution rate set will be based on the pay less the sacrificed amount and contributions will only be deducted from the post sacrificed amount. However, although the member will make a saving for the period of the duration of the sacrifice scheme there will be a lasting reduction to the pension benefits that the member will receive.

If you require any further information, please contact us using the details below.

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The LGPS 2014 is a Career Average Revalued Earnings (CARE) scheme, therefore a non-pensionable salary sacrifice scheme will affect a members' pension. The CARE scheme uses a member's pensionable pay at the end of each financial year to calculate pension benefits for that year, the sacrificed amount will not be counted in that calculation. Therefore, for the duration of a car salary sacrifice contract your pension benefits for that term will be less than they would have been had the member not been on such a scheme.

## Example

Actual pensionable pay	Sacrificed amount	Pay used to calculate pension benefits
£15,000	£3,000	£12,000
What pension benefits would be without sacrifice	£15,000 x 1/49th = £306.12	
What pension benefits would be with sacrifice	£12,000 x 1/49th = £244.90	

This amount is then banked and will not change even after the salary sacrifice period has ended. The CARE scheme calculates pension benefits each year and this will make a lasting reduction to the pension benefits of anyone on such a scheme for the period that they were sacrificing salary.

Further consideration should also be taken in respect of your pre 2014 membership, as this will still be based on your Final pensionable pay. Therefore if you finish employment earning the reduced pensionable pay figure then your benefits accrued pre 2014 will be calculated using this lower amount. However, as long as the salary sacrifice period ends at least 12 months before retirement/leaving the final pensionable pay figure used to calculate pension benefits will be unaffected.

## Example

	<b>Date of leaving is during salary sacrifice period</b>	<b>Date of leaving is 12 months (or more) after salary sacrifice ends</b>
<b>Pre 2014 membership</b>	Based on reduced pay	Based on reinstated higher pay
<b>Post 2014 membership</b>	Based on reduced pay	Based on reduced pay whilst in salary sacrifice period

Non pensionable salary sacrifice will also affect death benefits payable including the death in service grant.

## What if I am made redundant, leave or opt out?

If you are made redundant, leave or opt out of the pension scheme while you are still participating in a car salary sacrifice scheme then your retirement (if age 55 or over) or deferred (if under age 55) benefits will be calculated using the reduced pay figure for the year you are made redundant. All previous pension benefits will still be paid out as they have been calculated during those years. If you have any pre 2014 membership this will be calculated using your reduced pay figure.

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